

**COON RAPIDS MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF COON RAPIDS**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED JUNE 30, 2006**

# CONN RAPIDS MUNICIPAL UTILITIES

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# COON RAPIDS MUNICIPAL UTILITIES

## OFFICIALS

<b>Name</b>	<b>Position</b>	<b>Term Expires</b>
Mike Deeth	Chairman	July, 2006
Larry Taylor	Trustee	July, 2008
Dierk Halverson	Trustee	July, 2010
Bradley Honold	Secretary/General Manager	Indefinite
Kari Frerking	Comptroller	Indefinite
Jesica Leighty	City Clerk / City Treasurer	Indefinite
Mark Thomas	Attorney	Indefinite

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## INDEPENDENT AUDITORS' REPORT

Coon Rapids Municipal Utilities  
Coon Rapids, Iowa

We have audited the accompanying financial statements of the business type activities of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of and for the year ended June 30, 2006, which collectively comprise the Utilities' basic financial statement listed in the table of contents. These financial statements are the responsibility of Coon Rapids Municipal Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of Coon Rapids Municipal Utilities are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Coon Rapids, Iowa, that is attributable to the transactions of the Coon Rapids Municipal Utilities.

In our opinions, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006, on our consideration of Coon Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion of the financial statements that collectively comprise Coon Rapids Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the year ended June 30, 2005, (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 3 and 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

September 7, 2006

By  \_\_\_\_\_  
Certified Public Accountant

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Management's Discussion and Analysis

The Coon Rapids Municipal Utilities, "CRMU" provides this narrative overview and analysis of the Communications, Electric, Natural Gas, Water, and Wastewater Utilities' financial activities based upon currently known facts, decisions, and conditions for the fiscal year ended June 30, 2006. This should be read in conjunction with the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and the Statement of Cash Flows, which follow.

The Financial Statements of the Utility report information utilizing the accrual method of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America.

The Statement of Net Assets provides information about the type and amount of investments in resources (assets) and the obligations to creditors (liabilities), and also

indicate those restricted by the Board of Communications, Electric, Natural Gas, Water, and Wastewater Trustees (the Board). It also provides the basis for making a variety of financial assessments about the structure, liquidity, and financial flexibility of the Utility.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets reports all the revenues and expenses for the year, including nonoperating revenues and expenses. This statement can be used to determine whether the Utility has recovered all of its actual costs through rates and other charges.

The Statement of Cash Flows reports the cash from operating activities, cash from non-capital financing activities, as well as capital and related financing activities, and investing activities. This statement can be used to determine the source, use and change in cash.

### Communications Utility

#### Overview:

CRMU has been very successful in reducing customer churn in a very aggressive market-place due to competitive pricing and excellent customer service.

CRMU has worked towards expanding its offerings and services to help generate additional revenue to offset significant reductions in access fees - upon which the rural telecom industry was built.

Because of the FCC mandated lowering of access fees, and due to the widespread utilization of cellular services, the traditional wire-line telephone companies continue to experience pressure on sustaining their revenue base as long distance minutes and primary line services are converging onto the wireless networks.

To be successful in the future, CRMU must stay abreast of its customer's needs while continuing to provide new and innovative products to help supplement the traditional revenue stream.

### Communications Utility Financial Highlights:

Dollars in Thousands

	2006	2005
<b>OPERATIONS</b>		
Revenues .....	1,121	1,110
Expenses .....	929	856
Operating Income .....	192	254
<b>ASSETS</b>		
Current .....	1,057	1,010
Restricted .....	0	0
Capital .....	104	112
Noncurrent .....	0	0
<b>Total .....</b>	<b>1,161</b>	<b>1,122</b>
<b>LIABILITIES</b>		
Current .....	129	113
Noncurrent .....	87	120
<b>Total .....</b>	<b>216</b>	<b>233</b>
<b>NET ASSETS</b>		
Invested in Capital Assets .....	104	112
Restricted for:		
Bond/Note Retirement .....	0	0
Bond/Note Covenants .....	0	0
Unrestricted .....	841	777
<b>Total .....</b>	<b>945</b>	<b>889</b>
<b>Total Liabilities &amp; Net Assets .....</b>	<b>1,161</b>	<b>1,122</b>

### Results of Operations:

(As reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets)

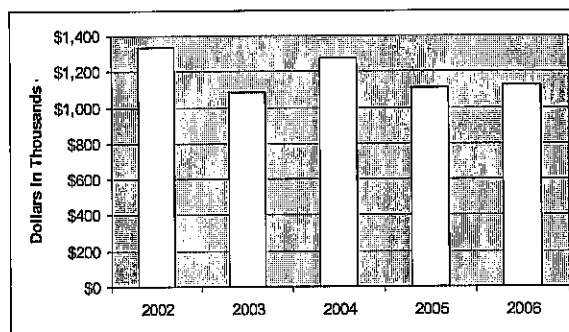
Revenue from operations remained relatively steady while total operating expenses increased by 9%. The increase in expenses can mainly be attributed to a \$24,042 increase in programming expense.

Cable television programming expenses increased in 2006 almost \$12,000 due to the addition of more networks to the basic lineup. Administrative and general expenses also increased, reflective of the new and steady staffing levels in FY 2006.

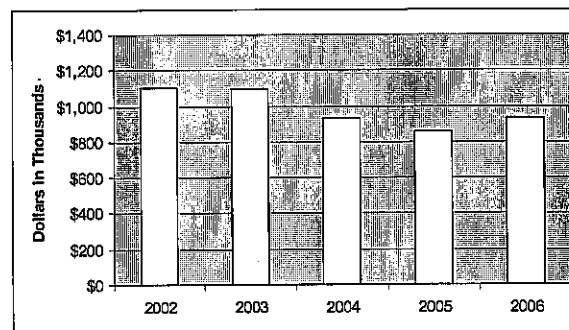
The communication utility's bundling program has been very successful as witnessed through low churn, and very stable customer counts. In the future, CRMU will increase marketing for the new high definition channels available.

CRMU's physical operations will be changing in the near future, as the communications utility has been notified of the manufacturing discontinuance of its current voiceport products. CRMU is evaluating different technologies for the delivery of voice services to its customers.

### Communications Utility Operating Revenues: \$1,121,062



### Communications Utility Operating Expenses: \$929,295



### Financial Position:

(As reported on the Statement of Net Assets)

The Communications Utility has a noncurrent liability in the form of an interutility loan to the Gas Utility totaling \$87,084 as of June 30, 2006. Current liabilities, consisting of various payables, total \$128,609.

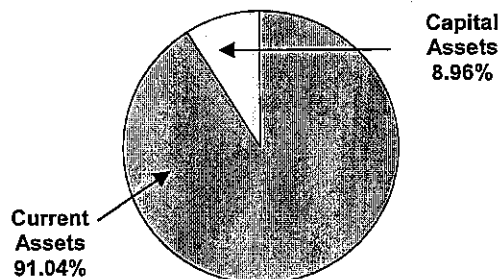
The Communications Utility has no noncurrent, or restricted assets. Capital assets, in the form of utility plant, facilities and equipment, account for 9% of total assets, while current assets comprise 91% of the balance of total assets.

CRMU is in the process of evaluating its infrastructure needs for the establishment of a capital improvement / replacement account.

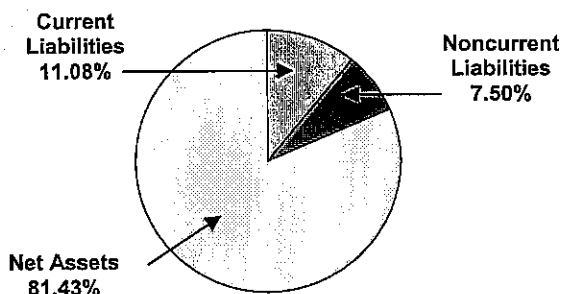
For a startup utility in late 1999, the communications utility has a sound financial base as it has entrenched itself with its service offerings providing high quality, needed services in the community. However, CRMU's revenues will be reduced next year due to the closing of Precision of Iowa.

Both revenues and expenses were lower than budget by \$57,000 and \$87,000, respectively.

### Communications Utility Total Assets: \$1,161,252



### Communications Utility Total Liabilities and Net Assets: \$1,161,252





## Electric Utility

### Overview:

In 2006, CRMU experienced a reduction in net income due to lower operating revenues and higher operating expenses.

CRMU continues to experience wholesale rate increases from WAPA due to a lack of sufficient snowfall in the upper Midwest resulting in hydro-electric generation reductions, and supplemental market purchases necessary to meet contracts demands. Additionally, the Neal 4 power plant was down for approximately six weeks, resulting in the purchase of high priced market power.

Due to the continuing increase of purchased power, CRMU implemented an electric cost adjustment (ECA). The ECA is dependant on usage fluctuations allowing for the costs to be fully recovered based on a six-month rolling average. CRMU also increased the basic electric rate 5% in an effort to cover increasing fixed costs.

CRMU continues to feel the impact of Syngenta's decreased usage. Their usage declined by almost 50% compared to 2005.

### Electric Utility Financial Highlights:

Dollars in Thousands

	2006	2005
<b>OPERATIONS</b>		
Revenues .....	1,939	1,974
Expenses .....	1,819	1,722
Operating Income .....	120	252
<b>ASSETS</b>		
Current .....	2,299	2,182
Restricted .....	15	512
Capital .....	7,470	7,627
Noncurrent .....	211	241
<b>Total</b> .....	<b>9,995</b>	<b>10,562</b>
<b>LIABILITIES</b>		
Current .....	432	455
Noncurrent .....	3,220	3,864
<b>Total</b> .....	<b>3,652</b>	<b>4,319</b>
<b>NET ASSETS</b>		
Invested in Capital Assets .....	3,904	3,406
Restricted for:		
Bond/Note Retirement .....	15	362
Bond/Note Covenants .....	0	150
Unrestricted .....	2,424	2,324
<b>Total</b> .....	<b>6,343</b>	<b>6,243</b>
<b>Total Liabilities &amp; Net Assets</b> .....	<b>9,995</b>	<b>10,562</b>

### Results of Operations:

(As reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets)

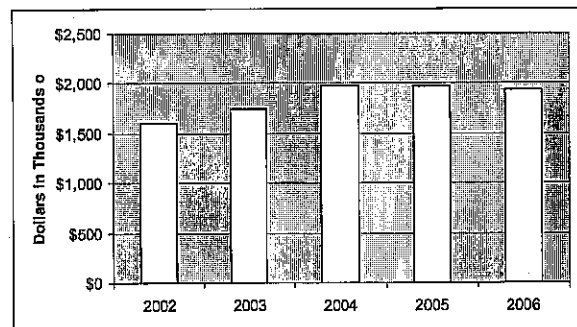
CRMU's operating income decreased from \$252,512 in 2005 to \$120,030 in 2006. Operating revenues decreased 2% while expenses increased 6%.

Purchased energy costs decreased by \$104,909, while plant operation expenses increased \$120,259 from the previous year. This is primarily due to a reclassification of Neal 4 expenses, as well as the additional costs of engine maintenance. Transmission costs increased more than \$23,000 compared to 2005.

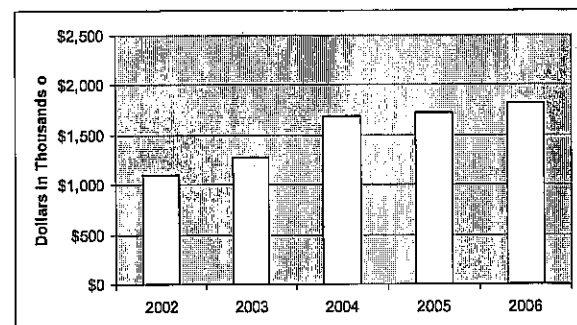
Nonoperating revenues increased over \$41,000 in 2006 due to increased interest income from higher rates. CRMU continued with its contributions to the community and City of Coon Rapids by recognizing a net transfer out of \$79,755, almost a 50% increase from 2005.

Revenues were \$57,000 lower than budget, and expenses were \$68,000 higher than budget.

### Electric Utility Operating Revenues: \$1,974,204



### Electric Utility Operating Expenses: \$1,721,692



## Financial Position:

(As reported on the Statement of Net Assets)

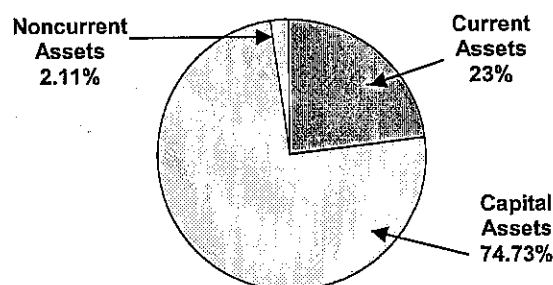
CRMU has two significant noncurrent liabilities in the form of a Series 2000 Capital Loan Note and a Series 2006 Capital Loan Note (a result of calling the '98 bonds). In 2006, CRMU reduced the liability of each obligation by \$125,000 and \$519,452, respectively. Both notes are expected to retire in 2014.

Noncurrent assets decreased by 23% mainly due to a reduction in the loan receivable from the Coon Rapids Development Group and a reduction in a tax increment financing loan receivable from the City of Coon Rapids.

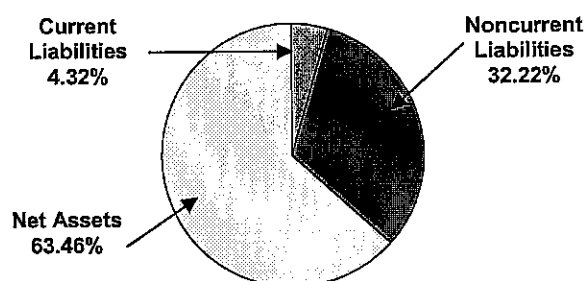
Capital assets, in the form of utility plant, facilities and equipment, account for over 74% of CRMU's total assets. Because of the bond refinancing, restricted (required) assets decreased by almost \$500,000.

CRMU has approximately 18% of its total assets in the form of cash, cash equivalents, and certificates of deposit. Of this amount, the Board of Trustees has allocated the majority for designated uses such as equipment replacement, generation replacement, health plan fund, etc., leaving only a small portion of its current assets undesignated.

### Electric Utility Total Assets: \$9,994,734



### Electric Utility Total Liabilities and Net Assets: \$9,994,734



## Natural Gas Utility

### Overview:

Over the past few years, CRMU has experienced increased energy and transportation costs. This national pattern of rising energy costs illustrates the price volatility of the natural gas commodity market in a deregulated environment.

While the American Public Gas Association "APGA," and CRMU have made several appeals to Congress to investigate the ineffectiveness of this deregulated natural gas market, it is hard to sit idle and watch large oil companies post record profits, with little to no explanation to the average consumer.

In efforts to limit exposure to this market, CRMU follows a commodity purchasing strategy with the goal of forward purchasing roughly 50% of its annual requirements prior to the winter heating season. This purchasing strategy consists of a mixed portfolio of commodity purchases ranging from futures contracts, to storage, to fixed monthly and spot volume purchases.

CRMU also optimizes its storage contract to help balance its daily volumes to avoid any monthly imbalance penalties from the pipeline.

### Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2006	2005
<b>OPERATIONS</b>		
Revenues .....	1,154	1,176
Expenses .....	1,237	1,126
Operating Income .....	(84)	50
<b>ASSETS</b>		
Current .....	1,487	1,415
Restricted .....	0	0
Capital .....	504	547
Noncurrent .....	412	554
Total .....	2,403	2,516
<b>LIABILITIES</b>		
Current .....	74	42
Noncurrent .....	0	30
Total .....	74	72
<b>NET ASSETS</b>		
Invested in Capital Assets .....	489	531
Restricted for:		
Bond/Note Retirement .....	0	0
Bond/Note Covenants .....	0	0
Unrestricted .....	1,840	1,913
Total .....	2,329	2,444
Total Liabilities & Net Assets .....	2,403	2,516

## Results of Operations:

(As reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets)

Revenue from operations declined slightly in 2006 compared to the previous year, primarily due to almost 50% less usage by Syngenta. Town usage also decreased because of the milder winter.

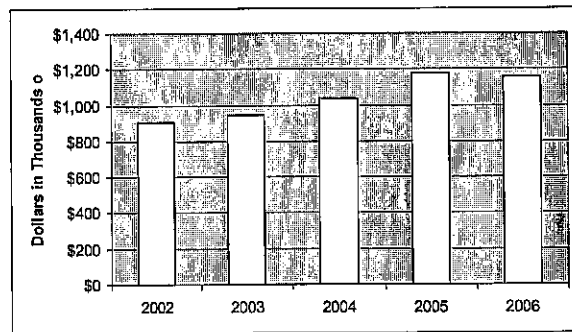
In 2006, purchased energy costs increased 11% due to high market prices caused from limited supplies and a very active hurricane season. CRMU continued to work hard to control costs. Aside from purchased energy, operating expenses increased 7%.

CRMU realized an operating loss in 2006 of \$83,616, compared to \$50,440 income in 2005. With fixed costs increasing and normal usage decreasing due to Syngenta, an evaluation of the natural gas base rate is probable.

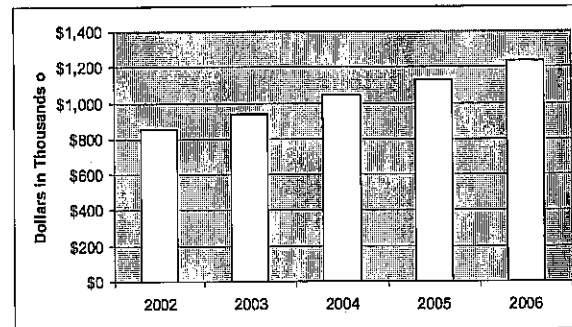
Nonoperating revenues were up 58% in 2006 due to increased interest income and lower municipal building expenses. Including nonoperating revenues of \$30,572, CRMU experienced a net loss of \$53,044 in 2006.

CRMU continued with its contributions to the community and City of Coon Rapids by recognizing a net transfer out of \$62,051, including a \$13,000 mower.

### Natural Gas Utility Operating Revenues: \$1,153,761



### Natural Gas Utility Operating Expenses: \$1,237,377



## Financial Position:

(As reported on the Statement of Net Assets)

The Natural Gas Utility has no significant noncurrent liabilities. CRMU's current liabilities, comprised of small payables, total \$74,409.

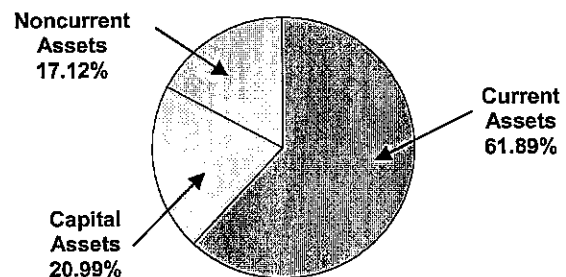
Noncurrent assets decreased by 24% mainly due to a write-off of the Iowa Stored Energy Project, reductions in loan receivables from the City of Coon Rapids for a bridge loan, and a tax increment financing (TIF) loan, and the reduction of an interutility loan to the Communications Utility.

Capital assets, in the form of utility plant, facilities and equipment, account for 21% of CRMU's total assets, while current assets comprise 62% of the total. Cash, cash equivalents, and certificates of deposit account for 87% of total current assets. Most of this is designated for future utility improvements.

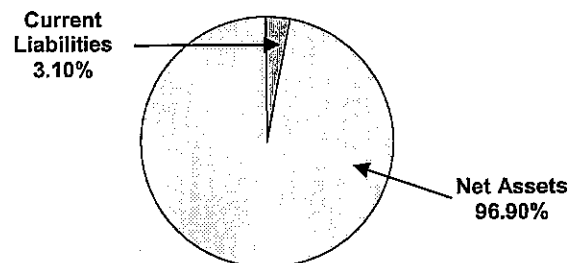
In an effort to maintain the strong financial position of the gas utility, CRMU will be analyzing the current base rate and PCA to incorporate a volumetric component.

Revenues were \$147,045 more than budget, while expenses were \$178,000 more than budget.

### Natural Gas Utility Total Assets: \$2,516,096



### Natural Gas Utility Total Liabilities and Net Assets: \$2,516,096



## Water Utility

### Overview:

For the past few years, CRMU has operated its water utility with very slight margins while continuing to make much needed and necessary system improvements. The result of these activities has put a financial strain on the small reserves of the water utility. CRMU implemented a 17% rate increase in July 2006, however, another increase may be necessary in the near future.

CRMU has been very fortunate through the years with an abundant water supply of good quality drinking water. This has served the water utility well, as CRMU has experienced minimal financial impacts due to increased testing promulgated by the Safe Drinking Water Act.

Protecting and preserving the water quality for Coon Rapids is a primary concern of CRMU. CRMU has made efforts towards establishing a wellhead protection plan and is continuing efforts to see that it can be implemented. CRMU is also fortunate to have four certified operators on staff, while some communities struggle to keep one.

### Water Utility Financial Highlights:

Dollars in Thousands

	2006	2005
<b>OPERATIONS</b>		
Revenues .....	146	165
Expenses .....	193	192
Operating Income .....	(47)	(27)
<b>ASSETS</b>		
Current .....	169	174
Restricted .....	0	0
Capital .....	507	540
Noncurrent .....	17	31
Total .....	693	745
<b>LIABILITIES</b>		
Current .....	15	22
Noncurrent .....	0	2
Total .....	15	24
<b>NET ASSETS</b>		
Invested in Capital Assets .....	506	540
Restricted for:		
Bond/Note Retirement .....	0	0
Bond/Note Covenants .....	0	0
Unrestricted .....	171	181
Total .....	678	721
<b>Total Liabilities &amp; Net Assets .....</b>	<b>693</b>	<b>745</b>

### Results of Operations:

(As reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets)

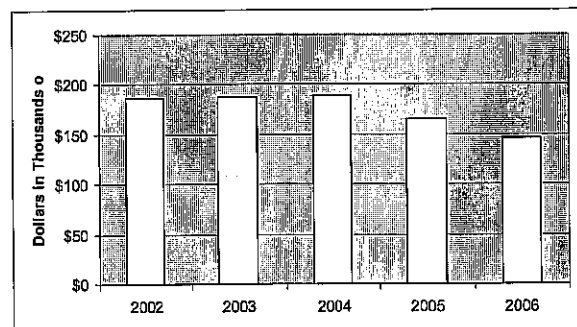
Due to decreased usage in FY 2006, operating revenues decreased 12%. However, operating expenses increased slightly.

Revenue from operations decreased by \$19,053 in 2006 primarily due to CRMU discontinuing to bill and pay for free water service to the golf course midway through the fiscal year. This change is also evident in the \$17,257 reduction in free service to the community.

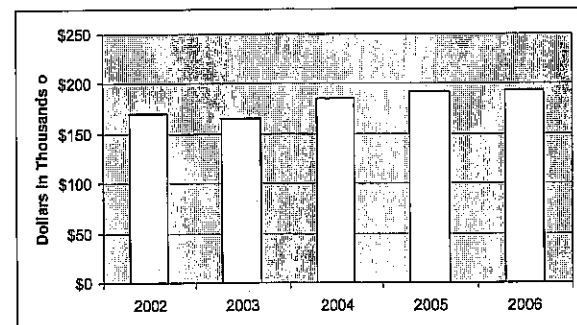
In 2006, plant operational expenses decreased 18% while distribution operation expense increased 24%. With decreased revenue and increased expenses, the water utility realized an operating loss of \$47,240.

Nonoperating revenues increased by \$2,800 in 2006 helping to slightly offset the operating loss. CRMU continued its contribution to the city totaling \$8,427. The water utility realized a net decrease in assets totaling \$42,764.

### Water Utility Operating Revenues: \$145,650



### Water Utility Operating Expenses: \$192,890



## Financial Position:

(As reported on the Statement of Net Assets)

Noncurrent assets decreased by almost 43% in 2006 due to a reduction in a tax increment financing loan receivable from the City of Coon Rapids totaling \$17,424 as of June 30, 2006.

Capital assets, in the form of utility plant, facilities and equipment, account for over 73% of CRMU's total assets. CRMU's total assets were down 7% compared to 2005.

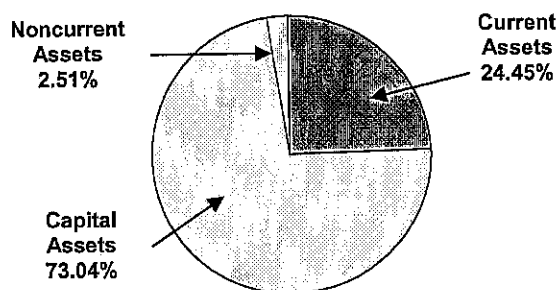
CRMU has approximately 18% of its total assets in the form of cash, cash equivalents, and certificates of deposit. Of this amount, the Board of Trustees has designated uses for all of the funds, which supports the need to reevaluate revenue requirements. CRMU has discovered that its hydrants, pumps, and motors savings fund is not as strong as it should be for future improvements to the water utility.

CRMU has no significant liabilities. For the year, total liabilities and net assets decreased 7% (or \$51,434).

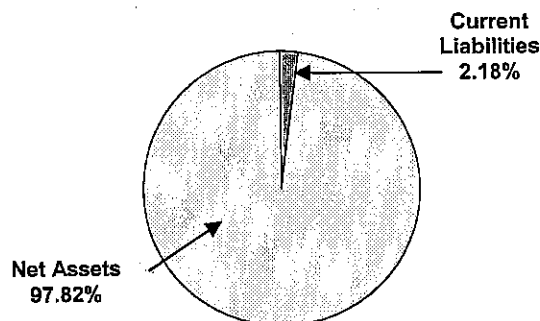
The financial strength of CRMU's water utility has decreased over the past several years. As CRMU makes water tower improvements and continues to maintain quality drinking, the revenues are inadequate.

Revenues and expenses were lower than budget by \$44,000 and \$22,000, respectively.

## Water Utility Total Assets: \$693,093



## Water Utility Total Liabilities and Net Assets: \$693,093



## Wastewater Utility

### Overview:

In 2006, the wastewater utility realized an operating gain of \$9,478. Including nonoperating revenues of \$46,635, the utility ended with total income gain of \$56,113.

The wastewater utility is in a strong financial position to make improvements as reserves have been accumulating over the years. The wastewater utility is currently evaluating a new lift station and force-main to the lagoons for capacity enhancements, removal of sludge, rip rap of lagoons, and a back-up generator. Further, the wastewater reserves may be used as a source of funds to replace the municipal building roof.

## Wastewater Utility Financial Highlights:

Dollars in Thousands

	2006	2005
<b>OPERATIONS</b>		
Revenues .....	110	109
Expenses .....	101	103
Operating Income .....	9	7
<b>ASSETS</b>		
Current .....	1,202	1,047
Restricted .....	0	0
Capital .....	655	670
Noncurrent .....	184	244
<b>Total .....</b>	<b>2,041</b>	<b>1,988</b>
<b>LIABILITIES</b>		
Current .....	3	2
Noncurrent .....	0	0
<b>Total .....</b>	<b>3</b>	<b>2</b>
<b>NET ASSETS</b>		
Invested in Capital Assets .....	655	670
Restricted for:		
Bond/Note Retirement .....	0	0
Bond/Note Covenants .....	0	0
Unrestricted .....	1,383	1,289
<b>Total .....</b>	<b>2,038</b>	<b>1,986</b>
<b>Total Liabilities &amp; Net Assets .....</b>	<b>2,041</b>	<b>1,988</b>

### Results of Operations:

(As reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets)

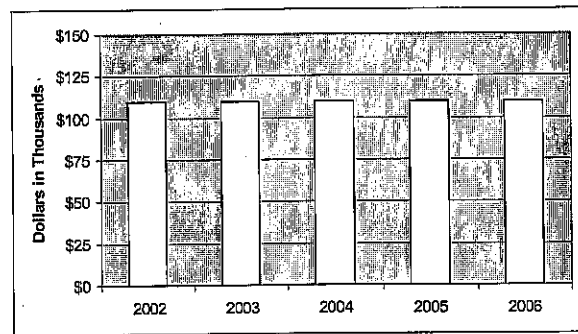
In 2006, the wastewater utility recorded \$110,468 in revenues. Wastewater revenues have been extremely consistent throughout the years, varying less than 1% over the past five years.

Total operating expenses in 2006 were down \$1,663 compared to 2005. Wastewater expenses have traditionally been consistent over the past five years as CRMU has made steady progress on system improvements.

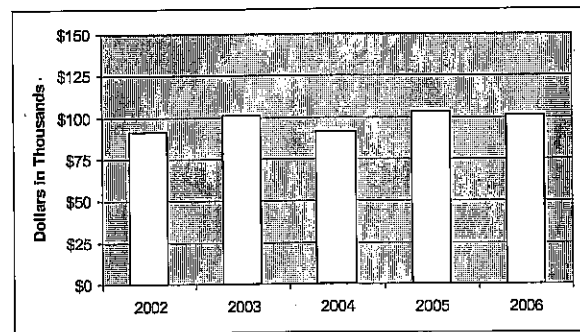
CRMU realized a net operating income of \$9,478 in 2006, up \$2,472 from 2005. Nonoperating revenues increased in 2006 due to a significant increase in interest income. Interest income rose from \$25,179 in 2005 to \$46,376 in 2006. This yielded \$46,635 in nonoperating revenues.

Net income increased \$23,000 from the previous year.

#### Wastewater Utility Operating Revenues: \$110,468



#### Wastewater Utility Operating Expenses: \$100,990



### Financial Position:

(As reported on the Statement of Net Assets)

Noncurrent assets decreased by 25% in 2006 due to reductions in loan receivables from the City of Coon Rapids for a bridge loan, and a tax increment financing (TIF) loan.

Capital assets, in the form of utility plant, facilities and equipment, account for 32% of CRMU's total assets, while current assets account for 59%.

The wastewater utility has accumulated reserves in anticipation of improvements to its collection system and lift station. This is evident as almost 95% of its total assets are in the form of cash, cash equivalents, and certificates of deposit.

The wastewater utility essentially has no liabilities other than some small payables.

Revenues and expenses were more than budget by \$29,000 and \$7,000, respectively.

Noncurrent  
Assets  
9.00%

Capital  
Assets  
32.09%

Current  
Assets  
58.92%

#### Wastewater Utility Total Liabilities and Net Assets: \$2,040,063

Current  
Liabilities  
0.14%

Net Assets  
99.86%

Wastewater Utility Total Assets: \$2,040,063

## **BASIC FINANCIAL STATEMENTS**

**COON RAPIDS MUNICIPAL UTILITIES**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006**

<b>ASSETS</b>	<b>Communications: Telephone Utility</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility</b>
<b>CURRENT ASSETS:</b>		
Cash and Invested Cash	\$ 755,335	\$ 125,039
Accounts Receivable, Net of Allowance -		
Trade	66,882	9,872
Other	92,464	35
Loans Receivable, Current Portion	-	-
Inter-utility Loans, Current Portion	-	-
Inventories	996	3,926
Other Current and Prepaid Assets	-	2,615
Total Current Assets	<u>915,677</u>	<u>141,487</u>
<b>RESTRICTED ASSETS:</b>		
Cash and Invested Cash	-	-
Total Restricted Assets	<u>-</u>	<u>-</u>
<b>CAPITAL ASSETS:</b>		
Utility Plant, Facilities and Equipment, at Cost	10,103	338,800
Accumulated Depreciation	<u>(3,811)</u>	<u>(241,004)</u>
Total Capital Assets, Net	6,292	97,796
<b>NONCURRENT ASSETS:</b>		
NIMECA Patronage Dividend Receivable	-	-
Loans Receivable, Net of Current Portion Above -		
from City of Coon Rapids	-	-
from Coon Rapids Development Group	-	-
from Tax Increment Financing	-	-
from Inter-utility Communications Utility	-	-
Prepaid Rent, Net of Current Portion	-	-
Municipal Building, Equipment and Land, Net of		
Accumulated Depreciation	<u>-</u>	<u>-</u>
Total Noncurrent Assets	-	-
<b>Total Assets</b>	<u><u>\$ 921,969</u></u>	<u><u>\$ 239,283</u></u>

See Independent Auditors' Report and Notes to Financial Statements.



## EXHIBIT A

## Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 1,843,091	\$ 1,294,577	\$ 123,932	\$ 1,141,646	\$ 5,283,620
191,664	32,692	20,540	13,576	335,226
26,880	3,628	419	-	123,426
19,382	42,098	7,577	45,276	114,333
-	32,591	-	-	32,591
192,314	73,059	13,496	151	283,942
25,719	8,534	3,465	1,314	41,647
<u>2,299,050</u>	<u>1,487,179</u>	<u>169,429</u>	<u>1,201,963</u>	<u>6,214,785</u>
15,325	-	-	-	15,325
<u>15,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,325</u>
11,520,749	1,236,969	1,369,386	1,668,548	16,144,555
(4,051,662)	(732,546)	(863,146)	(1,013,991)	(6,906,160)
<u>7,469,087</u>	<u>504,423</u>	<u>506,240</u>	<u>654,557</u>	<u>9,238,395</u>
14,359	-	-	-	14,359
-	54,283	-	135,751	190,034
34,736	-	-	-	34,736
14,458	74,257	17,424	47,792	153,931
-	87,084	-	-	87,084
-	1,111	-	-	1,111
<u>147,719</u>	<u>194,618</u>	<u>-</u>	<u>-</u>	<u>342,337</u>
211,272	411,353	17,424	183,543	823,592
<u>\$ 9,994,734</u>	<u>\$ 2,402,955</u>	<u>\$ 693,093</u>	<u>\$ 2,040,063</u>	<u>\$ 16,292,097</u>

(Continued)

**COON RAPIDS MUNICIPAL UTILITIES**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006**

<b>LIABILITIES</b>	<b>Communications: Telephone Utility</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility</b>
<b>CURRENT LIABILITIES:</b>		
Accounts Payable - Trade	\$ 67,388	\$ 17,441
Other Payables and Credits	80	19
Payroll, Sales and Use Taxes Payable	4,102	719
Compensated Absences Payable	2,827	3,442
Inter-utility Loans Payable, Current Portion	-	32,591
Deferred Revenue, Current Portion	-	-
Payable from Restricted Assets -		
Customer Deposits	-	-
Electric Capital Notes Payable, Current Portion	-	-
Accrued Interest	-	-
Total Current Liabilities	<u>74,397</u>	<u>54,212</u>
<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION:</b>		
Electric Capital Notes Payable, Series 2006	-	-
Electric Capital Notes Payable, Series 2003	-	-
Inter-utility Loans Payable to Gas Utility	-	87,084
Total Long-term Liabilities	<u>-</u>	<u>87,084</u>
Total Liabilities	<u>74,397</u>	<u>141,296</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	6,292	97,796
Restricted	-	-
Unrestricted	<u>841,280</u>	<u>191</u>
Total Net Assets	<u>847,572</u>	<u>97,987</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 921,969</u></u>	<u><u>\$ 239,283</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

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**Business Type Activities - Enterprise Funds**


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Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 29,601	\$ 50,100	\$ 7,290	\$ 977	\$ 172,797
27,672	15,898	7	4	43,680
7,735	1,792	1,916	365	16,629
12,409	6,619	3,653	1,565	30,515
-	-	-	-	32,591
19,863	-	2,223	-	22,086
9,047	-	-	-	9,047
310,000	-	-	-	310,000
15,257	-	-	-	15,257
<u>431,584</u>	<u>74,409</u>	<u>15,089</u>	<u>2,911</u>	<u>652,602</u>
1,815,000	-	-	-	1,815,000
1,405,000	-	-	-	1,405,000
-	-	-	-	87,084
<u>3,220,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,307,084</u>
3,651,584	74,409	15,089	2,911	3,959,686
3,903,967	488,525	506,240	654,557	5,657,377
15,325	-	-	-	15,325
2,423,858	1,840,021	171,764	1,382,595	6,659,709
6,343,150	2,328,546	678,004	2,037,152	12,332,411
<u>\$ 9,994,734</u>	<u>\$ 2,402,955</u>	<u>\$ 693,093</u>	<u>\$ 2,040,063</u>	<u>\$ 16,292,097</u>

**COON RAPIDS MUNICIPAL UTILITIES**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Communications: Telephone Utility</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility</b>
<b>OPERATING REVENUES:</b>		
Sales to Customers	\$ 811,135	\$ 303,158
Sales for Resale	-	-
Interdepartmental Sales	-	-
Forfeited Discounts	6,762	-
Rebates and Other	-	7
Total Operating Revenues	<u>817,897</u>	<u>303,165</u>
<b>OPERATING EXPENSES:</b>		
Purchased Energy and Programming	414,193	168,770
Plant Operations	17,535	15,022
Transmission Operations	-	-
Distribution Operations	20,660	35,141
Consumer Service Operations	70,948	18,042
Administrative and General Expenses	107,126	47,626
Depreciation	1,641	12,591
Total Operating Expenses	<u>632,103</u>	<u>297,192</u>
Operating Income (Loss)	185,794	5,973
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest Income	24,226	7,453
Joint Use Revenue (Expense)	(172,992)	-
Municipal Building - Rent and Expense Reimbursement	-	-
Merchandise Sales - Net	1,969	802
Miscellaneous Nonoperating Revenue	8,803	3,503
Contribution to ISEP	-	-
Interest Expense	-	(6,150)
Municipal Building Expense	-	-
Net Nonoperating Revenues (Expenses)	<u>(137,994)</u>	<u>5,608</u>
Income (Loss) before Transfers	47,800	11,581
<b>TRANSFERS IN (OUT):</b>		
In-Lieu-Of Tax Payments	(589)	(513)
Free Community Service	(210)	(1,391)
Net Transfers In (Out)	<u>(799)</u>	<u>(1,904)</u>
Change in Net Assets	47,001	9,677
Total Net Assets - July 1, 2005	800,571	88,310
Total Net Assets - June 30, 2006	<u>\$ 847,572</u>	<u>\$ 97,987</u>

See Independent Auditors' Report and Notes to Financial Statements

## Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 1,255,491	\$ 1,145,902	\$ 130,645	\$ 110,195	\$ 3,756,526
629,879	-	-	-	629,879
48,496	5,682	439	-	54,617
3,696	1,443	378	273	12,552
1,514	734	14,188	-	16,443
<u>1,939,076</u>	<u>1,153,761</u>	<u>145,650</u>	<u>110,468</u>	<u>4,470,017</u>
860,725	987,972	-	-	2,431,660
159,694	19,301	43,970	12,151	267,673
48,820	-	-	-	48,820
135,110	66,486	40,995	18,056	316,448
47,108	26,592	15,658	4,482	182,830
255,077	108,048	47,835	23,203	588,915
312,512	28,978	44,432	43,098	443,252
<u>1,819,046</u>	<u>1,237,377</u>	<u>192,890</u>	<u>100,990</u>	<u>4,279,598</u>
120,030	(83,616)	(47,240)	9,478	190,419
91,803	54,133	7,196	46,376	231,187
175,242	-	-	-	2,250
12,709	7,256	4,815	-	24,780
(2,850)	1,207	335	245	1,708
15,050	1,056	557	14	28,983
-	(20,000)	-	-	(20,000)
(220,884)	-	-	-	(227,034)
(11,034)	(13,080)	-	-	(24,114)
<u>60,036</u>	<u>30,572</u>	<u>12,903</u>	<u>46,635</u>	<u>17,760</u>
180,066	(53,044)	(34,337)	56,113	208,179
(54,374)	(45,140)	(4,303)	(1,000)	(105,919)
(25,381)	(16,911)	(4,124)	(3,554)	(51,571)
<u>(79,755)</u>	<u>(62,051)</u>	<u>(8,427)</u>	<u>(4,554)</u>	<u>(157,490)</u>
100,311	(115,095)	(42,764)	51,559	50,689
6,242,839	2,443,641	720,768	1,985,593	12,281,722
<u>\$ 6,343,150</u>	<u>\$ 2,328,546</u>	<u>\$ 678,004</u>	<u>\$ 2,037,152</u>	<u>\$ 12,332,411</u>

**COON RAPIDS MUNICIPAL UTILITIES**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Communications: Telephone Utility</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers and Users	\$ 780,410	\$ 309,899
Cash Received from Interdepartmental Sales	-	-
Cash Paid from Other Revenues (Expenses) - Net	(162,220)	4,305
Cash Paid to Suppliers for Goods and Services	(534,388)	(212,292)
Cash Paid to Employees	(82,001)	(72,278)
Cash Paid for Interdepartmental Services	-	-
Cash Paid for In-Lieu-of-Tax Payments	(589)	(513)
Net Cash Flow from Operating Activities	<u>1,212</u>	<u>29,121</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers to City of Coon Rapids - Free Community Service	(210)	(1,391)
Increase in Patronage Dividend Receivable	-	-
Increase in Customer Deposits	-	-
Net Cash Flow from Noncapital Financing Activities	<u>(210)</u>	<u>(1,391)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital and Construction in Progress Expenditures	(51)	(6,676)
Principal Payments on Long-term Debt	-	(31,160)
Proceeds from Issuance of Long-term Debt	-	-
Interest Paid on Debt	-	(6,150)
Net Cash Flow from Capital and Related Financing Activities	<u>(51)</u>	<u>(43,986)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on Investments	24,226	7,453
Contribution to ISEP	-	-
Principal Received on -		
City of Coon Rapids Loan	-	-
Coon Rapids Development Group Loan	-	-
Tax Increment Financing	-	-
Inter-utility Loans	-	-
Net Cash Flow from Investing Activities	<u>24,226</u>	<u>7,453</u>
Net Increase (Decrease) in Cash and Cash Equivalents	25,177	(8,803)
Cash and Cash Equivalents - July 1, 2005	730,158	133,842
Cash and Cash Equivalents - June 30, 2006	<u>\$ 755,335</u>	<u>\$ 125,039</u>

See Independent Auditors' Report and Notes to Financial Statements.

## EXHIBIT C

Business Type Activates - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 1,841,374	\$ 1,177,409	\$ 138,576	\$ 105,295	\$ 4,352,963
48,496	5,682	439	-	54,617
200,157	9,519	5,707	(741)	56,727
(1,187,894)	(1,071,318)	(68,263)	(22,766)	(3,096,921)
(251,141)	(119,517)	(91,428)	(32,870)	(649,235)
(48,496)	(5,682)	(439)	-	(54,617)
(54,374)	(45,140)	(4,303)	(1,000)	(105,919)
548,122	(49,047)	(19,711)	47,918	557,615
(25,381)	(16,911)	(4,124)	(3,554)	(51,571)
(770)	-	-	-	(770)
(15,295)	-	-	-	(15,295)
(41,446)	(16,911)	(4,124)	(3,554)	(67,636)
(154,638)	(1,848)	(10,780)	(733)	(174,726)
(2,661,225)	-	-	-	(2,692,385)
2,000,000	-	-	-	2,000,000
(219,007)	-	-	-	(225,157)
(1,034,870)	(1,848)	(10,780)	(733)	(1,092,268)
91,803	54,133	7,196	46,376	231,187
-	20,000	-	-	20,000
-	8,021	-	23,041	31,062
33,733	-	-	-	33,733
-	56,086	13,144	36,172	105,402
-	31,677	-	-	31,677
125,536	169,917	20,340	105,589	453,061
(402,658)	102,111	(14,275)	149,220	(149,228)
2,261,074	1,192,466	138,207	992,426	5,448,173
<u>\$ 1,858,416</u>	<u>\$ 1,294,577</u>	<u>\$ 123,932</u>	<u>\$ 1,141,646</u>	<u>\$ 5,298,945</u>

**COON RAPIDS MUNICIPAL UTILITIES**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Communications: Telephone Utility</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating Income (Loss) (Exhibit B)	\$ 185,794	\$ 5,973
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities -		
Depreciation	1,641	12,591
Other Revenues (Expenses)	(162,809)	3,781
(Increase) Decrease in Operating Assets -		
Accounts Receivable	(37,487)	6,734
Inventories	(876)	1,576
Other Current and Prepaid Assets	-	(310)
Prepaid Rent, Noncurrent	-	-
Increase (Decrease) in Operating Liabilities -		
Deferred Rent Revenue	-	-
Accounts and Other Payables	16,107	(645)
Compensated Absences	435	546
Payroll, Sales and Use Taxes Payable	(1,593)	(1,125)
Net Cash Flows from Operating Activities	<u>\$ 1,212</u>	<u>\$ 29,121</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS AT  
YEAR END TO SPECIFIC ASSETS INCLUDED ON THE  
STATEMENT OF NET ASSETS:**

Current Assets - Cash and Cash Equivalents	\$ 755,335	\$ 125,039
Restricted Assets - Cash and Cash Equivalents	-	-
Cash and Cash Equivalents - June 30, 2006	<u>\$ 755,335</u>	<u>\$ 125,039</u>

See Independent Auditors' Report and Notes to Financial Statements



## EXHIBIT C

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 120,030	\$ (83,616)	\$ (47,240)	\$ 9,478	\$ 190,419
312,512	28,978	44,432	43,098	443,252
145,783	(38,720)	1,404	(741)	(51,302)
(49,206)	29,330	(6,635)	(5,173)	(62,437)
3,911	(17,405)	(2,831)	-	(15,625)
(701)	(6,298)	(171)	727	(6,753)
6,667	6,667	-	-	13,334
-	-	(13,333)	-	(13,333)
7,443	31,917	4,254	929	60,005
1,971	1,049	580	247	4,828
(288)	(949)	(171)	(647)	(4,773)
<u>\$ 548,122</u>	<u>\$ (49,047)</u>	<u>\$ (19,711)</u>	<u>\$ 47,918</u>	<u>\$ 557,615</u>
\$ 1,843,091	\$ 1,294,577	\$ 123,932	\$ 1,141,646	\$ 5,283,620
15,325	-	-	-	15,325
<u>\$ 1,858,416</u>	<u>\$ 1,294,577</u>	<u>\$ 123,932</u>	<u>\$ 1,141,646</u>	<u>\$ 5,298,945</u>

## COON RAPIDS MUNICIPAL UTILITIES

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. *Organization and Nature of Activities -*

Coon Rapids Municipal Utilities (CRMU) is a component unit of the City of Coon Rapids, Iowa (the City) engaged in the activities of providing telephone services; cable TV, internet & pager services; electric, natural gas and water utilities services; and wastewater service. CRMU is governed by a three-member Board of Trustees, appointed by the Mayor with the approval of the City Council of the City of Coon Rapids, who are authorized to establish rates. CRMU is not liable for federal and state income or ad valorem taxes on property; however, payments in-lieu-of taxes and other contributions are made to the City.

These financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable for proprietary funds of governmental entities. In reporting financial activities, CRMU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

##### B. *Reporting Entity -*

Generally accepted accounting principles require CRMU to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined based on budget adoption, taxing authority, funding, or appointment of the respective governing board. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. CRMU has no component units itself, but has determined that it is a component unit of the City of Coon Rapids.

##### C. *Shared Utility Plants -*

###### Common Transmission System

North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including CRMU, has entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS) necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. CRMU has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at June 30, 2006, was \$568,151.

See Independent Auditors' Report.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Neal 4 Generating Station

CRMU is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreement between MidAmerican Energy and the owners. CRMU owns 0.521 percent, as a tenant-in-common, of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. CRMU's cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2006, was \$912,034.

Both shared utility plants have established an account to which CRMU is required to pay its pro rata share, net of revenues earned, of operating and maintenance costs. Any disbursements from these accounts for operating and maintenance costs are reflected in these financial statements. Separate financial statements for these shared utility plants are available in the offices of CRMU.

#### **D. *Basis of Presentation -***

The accounts of CRMU are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate accounting entity and each reported in a separate column in the financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses, including debt service of the designated activity. CRMU reports the following major enterprise funds:

- Communication: Telephone Utility
- Communications: Cable TV, Internet & Pager Utility
- Electric Utility
- Natural Gas Utility
- Water Utility
- Wastewater Utility

#### **E. *Measurement Focus and Basis of Accounting -***

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CRMU's proprietary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized when the related obligation is incurred. (The applicable generally accepted accounting principles are those similar to businesses in the private sector.)

See Independent Auditors' Report.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing producing and delivering goods in connection with an enterprise's principal ongoing operations. The primary operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses of enterprise funds include the cost of sales, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

### F. *Use of Estimates -*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### G. *Revenue Recognition -*

For all services except communication services, meters are read and bills are rendered on a cycle basis near the end of each month. Revenues based on meter readings are recorded close to the end of each month and, as such, the revenues earned from utilities delivered after meters are read to the end of the month are minimal and not estimated or recorded.

For telephone communication services, unbilled receivables for services delivered between scheduled billing dates are estimated and shown in the Communications: Telephone Utility column as other accounts receivable. For other communication services, unbilled services delivered between scheduled billing dates are minimal and not estimated or recorded.

### H. *Cash and Cash Equivalents -*

The various enterprise funds of CRMU combine their cash and invested cash (nonnegotiable certificates of deposits) funds into several shared bank accounts at one financial institution. Interest earned on invested cash is divided among the funds.

For purposes of the statement of cash flows, invested cash and all short-term investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

### I. *Accounts Receivable and Allowances -*

An estimate is made for allowances for doubtful accounts based on an analysis of the aging of accounts receivable and on historical write-offs net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. Accounts receivable was reported net of the allowance for doubtful accounts of \$52,852 at June 30, 2006.

### J. *Inventories -*

Inventories are recorded as expense when consumed rather than when purchased. Material, supplies and fuel inventories are stated at cost, which does not exceed market. Cost is generally determined on a weighted-average basis. Electric Utility inventories include fuel for the local plant and its joint ownership share of the coal pile at the Neal 4 Generating Station. Gas Utility inventories include stored natural gas held for sale. The inventories at June 30, 2006, are comprised as follows:

See Independent Auditors' Report

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All Material and Supplies	\$ 225,616
Electric Fund Fuel Inventories	24,652
Gas Fund Natural Gas Inventory	33,674

### K. Capital Assets -

Utility plants, infrastructures, facilities and equipment (capital assets) are valued at historical cost. The cost of system renewals and betterments includes engineering, interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

Interest costs on debt are capitalized when proceeds are used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowings which are restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount of interest capitalized. No interest costs were capitalized for the year ended June 30, 2006, as no qualifying assets were constructed or acquired.

CRMU does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual basis.

Capital assets are depreciated over the assets estimated useful lives using the straight-line method with one-half year convention. No depreciation is taken on construction in progress. The range of estimated useful lives by capital asset sub-categories is as follows:

Plant and Structures	20-50 Years
Sub-Station Improvements	20-35 Years
Transmission System Improvements	25-35 Years
Distribution System Improvements	25-35 Years
Tools and Shop Equipment	5-10 Years
Furniture and Office Equipment	5-10 Years
Vehicles	5 Years

### L. Net Assets -

Net assets are shown in three components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by outside creditors, others or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management (designations), which can be removed or modified.

See Independent Auditors' Report

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts shown as restricted net assets and the purpose of the restriction are as follows:

Restricted for	Amount
Revenue Notes Sinking	\$ 15,325

### M. *Expense Allocations* -

Expenses, except for those expenses determined to be for a specific fund or funds, are allocated to all funds based on a three-year rolling average of each fund's personnel hours. The rolling average is updated each pay period.

### N. *Budgets and Budgetary Accounting* -

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

## NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS

CRMU considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash. The Utilities consider any non-negotiable certificates of deposits to be cash equivalents.

CRMU pool their deposits and investments and maintain records as to the separate utility systems share of the total balance. All deposits in banks at June 30, 2006, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CRMU is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit or savings accounts at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage districts.

At June 30, 2006, the Electric Utility had investments in the Iowa Public Agency Investment Trust (IPAIT) held in the NIMECA CTS Improvement Fund, which are valued at an amortized cost of \$197,086. Deposits with IPAIT are not FDIC insured as it is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law pursuant to Chapter 28E and Sections 331, 555 and 384.21, Iowa Code (1987), as amended, which authorizes Iowa public agencies to jointly invest monies pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

Monies held for special purposes are limited to the use for which restricted and cannot be used for the general operations of the utility. The funds held for debt redemption are required by covenants of the electric capital notes payable. Upon payoff or refinancing of the capital notes payable, these funds will be released to unrestricted funds.

See Independent Auditors' Report

### NOTE 3 - COMMUNICATIONS: TELEPHONE ACCOUNTS RECEIVABLE - OTHER

Other accounts receivable reported for the Communications: Telephone Utility includes delayed long distance and CAB's billings of \$92,465 for the telephone system. The CAB's portion is \$79,281 at June 30, 2006. The CAB's amount is net of an allowance for doubtful collections in the amount of \$16,625. Management believes the allowance to be a reasonable and appropriate reduction of the CAB's receivables to their net realizable value.

### NOTE 4 - LOANS RECEIVABLE

#### Loans to City of Coon Rapids

On April 11, 2002, the Board of Trustees of CRMU approved a resolution to provide financing from the Gas Utility and Wastewater Utility to the City of Coon Rapids to pay the cost of construction of a new bridge and reconstruction of the roadway approaching the bridge. CRMU is financing the loan pursuant to the provisions of Section 384.24A of the Code of Iowa.

The principal amount of the loan was \$350,000 with \$100,000 financed by the Gas Utility and \$250,000 financed by the Wastewater Utility. The general obligation note, dated May 31, 2002, specifies annual installments of \$42,088, including interest at 3.50% beginning June 1, 2003, with a final payment of \$42,093 on June 1, 2012. The City has the right to prepay principal of the note, in whole or in part, at any time prior to and in inverse order of maturity on terms of par and accrued interest.

Annual amounts receivable in the future for the loans are as follows:

Year Ending June 30,	Gas Utility		Wastewater Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	9,783	2,243	24,455	5,607	34,238	7,850
2008	10,125	1,900	25,312	4,751	35,437	6,651
2009	10,480	1,546	26,197	3,865	36,677	5,411
2010	10,847	1,178	27,114	2,949	37,961	4,127
2011	11,226	799	28,063	2,000	39,289	2,799
2012	11,605	406	29,065	1,017	40,670	1,423
Totals	<u>\$ 64,066</u>	<u>\$ 8,072</u>	<u>\$ 160,206</u>	<u>\$ 20,189</u>	<u>\$ 224,272</u>	<u>\$ 28,261</u>

#### Loan to Coon Rapids Development Group

On January 17, 2002, the Board of Trustees of CRMU approved a resolution to provide financing from the Electric Utility to the Coon Rapids Development Group (a nonprofit organization) for a new residential development in the City of Coon Rapids. The Board approved a 10-year loan for \$125,000 at 2.50% interest. The CRMU board provided the funds in order to promote economic and community development in the Coon Rapids area and to create a sound economic base to serve as a foundation for future load growth and development for CRMU. The funds were advanced in May 2002. Repayment terms specify monthly principal payments of \$1,178 plus interest at 2.50% which began June 30, 2002. Extra payments were made during the fiscal year 2005-2006, and subsequently, which makes the final scheduled payment due June 30, 2007.

See Independent Auditors' Report

**NOTE 4 - LOANS RECEIVABLE (Continued)**

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	<u>Electric Utility</u>	
	Principal	Interest
2007	13,094	296
Totals	<u>\$ 13,094</u>	<u>\$ 296</u>

**NOTE 5 - TAX INCREMENT FINANCING RECEIVABLE**

On January 29, 2003, the Board of Trustees of CRMU passed a resolution to provide financing to Coon Rapids Development Group (a nonprofit group), to assist in two separate economic development projects. One project was for the development of land for commercial businesses with a total cost of \$138,281. The other project was for the development of land within the City of Coon Rapids for single and multiple-family dwellings with a total cost of \$306,641. The combined amount of \$444,922 was advanced in varying amounts from the Electric, Gas, Water and Wastewater Utilities Funds.

On April 5, 2004, CRMU and the City of Coon Rapids entered into a development agreement whereby the City agreed to make economic development rebate payments to CRMU totaling \$444,922. To the extent money is available in the City's Urban Renewal Tax Revenue Fund, the City will make rebate payments up to \$75,000 annually beginning June 2005 and continuing for six years or until the debt is paid. As the agreement carries no interest rate, the principal was discounted over an anticipated repayment period of six years at CRMU's nominal interest rate.

A repayment of \$125,000 was received during the current year. The annual amount receivable by the Utilities as principal, and the related amortized discount recognized as interest income, for the loan receivable in future years are expected to be as follows:

Ending June 30,	<u>Electric Utility</u>		<u>Gas Utility</u>		<u>Water Utility</u>	
	Principal	Discount	Principal	Discount	Principal	Discount
2007	\$ 6,289	\$ 750	\$ 32,315	\$ 3,858	\$ 7,577	\$ 904
2008	6,471	568	33,255	2,917	7,798	684
2009	6,660	380	34,223	1,949	8,024	457
2010	1,325	552	6,787	2,834	1,599	666
	<u>\$ 20,745</u>	<u>\$ 2,250</u>	<u>\$ 106,580</u>	<u>\$ 11,558</u>	<u>\$ 24,998</u>	<u>\$ 2,711</u>

Ending June 30,	<u>Wastewater Utility</u>		<u>Total</u>	<u>Total</u>	<u>Total</u>
	Principal	Discount	Principal	Discount	Payments
2007	\$ 20,821	\$ 2,486	\$ 67,002	\$ 7,998	\$ 75,000
2008	21,427	1,880	68,951	6,049	75,000
2009	22,051	1,256	70,958	4,042	75,000
2010	4,338	1,822	14,049	5,874	19,923
	<u>\$ 68,637</u>	<u>\$ 7,444</u>	<u>\$220,960</u>	<u>\$ 23,963</u>	<u>\$244,923</u>

See Independent Auditors' Report



## NOTE 6 - INTER-UTILITY LOANS

On February 18, 1999, the Gas Utility loaned funds to the Communications (Cable TV) Utility. This loan is unsecured. The loan was used for the purchase of equipment and for operating capital for the Communications (Cable TV) Utility. The initial loan amount was \$300,000 with scheduled repayment over ten years. Interest is accrued and added to the principal balance of the note on a monthly basis at a rate of 4.50%. Monthly payments are \$3,109, which began on September 30, 1999; total payments per year amount to \$37,310.

The detail of inter-utility receivable and payable at June 30, 2006, is as follows:

Receivable Fund	Payable Fund	Balance Beginning of the Year	Payments During Year Principal	Interest	Balance End of Year
Gas	Communications - Cable TV	<u>\$ 150,835</u>	<u>\$ 31,160</u>	<u>\$ 6,150</u>	<u>\$ 119,675</u>

Amounts receivable for the Gas Utility and the debt service requirements for the Communications (Cable TV) Utility for the inter-utility loan in the future are as follows:

Year Ending June 30,	Principal	Interest	Scheduled Payments
2007	\$ 32,591	\$ 4,719	\$ 37,310
2008	34,088	3,222	37,310
2009	35,654	1,656	37,310
2010	17,342	224	17,566
Totals	<u>\$ 119,675</u>	<u>\$ 9,821</u>	<u>\$ 129,496</u>

Subsequent to June 30, 2006, this loan was paid off in full earlier than scheduled, as shown above.

## NOTE 7 - PREPAID RENT EXPENSE / DEFERRED RENT REVENUE

In August 2001, the Electric Utility and Gas Utility entered into a five year rental agreement with the Water Utility for the use of its directional-boring machine which originally cost \$100,356. Both the Electric Utility and Gas Utility each paid \$33,333 in advance, which included all rental charges and a share of anticipated repairs and operating costs.

For the year ended June 30, 2006, rental income for the Water Utility amounted to \$13,333; rental expense amortized for the Electric Utility and Gas Utility amounted to \$6,667 and \$6,666, respectively.

Future recognition of rental income and future amortization of rental expense for succeeding years will be as follows:

Year Ending June 30,	Rental Income Water	Rental Expense Electric	Gas
2007	\$ 2,223	\$ 1,111	\$ 1,112

See Independent Auditors' Report.

## NOTE 8 - MUNICIPAL BUILDING

The Electric Utility and Gas Utility each provided funds for construction of a municipal building for use as office space by CRMU and by the City for library and general office space. Based on square footage, CRMU utilizes 76.83 percent of the building and the City utilizes 23.17 percent. The City reimburses the Electric Utility and Gas Utility ratably for a share of building operating costs. The public uses 50 percent of the building as a meeting hall and pays a nominal rent for each usage. This public usage area is included in the portion allocated to CRMU.

For financial reporting purposes, all assets, liabilities, income and expenses of this building are prorated 43.16% to the Electric Utility and 56.84% to the Gas Utility. These percentages represent each Utility's share of the original capital contributed for construction of the building.

Municipal building assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 – 50 Years
Equipment	5 – 40 Years

Cost and accumulated depreciation activity for the year ended June 30, 2006, reported in each utility's financial statement are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Electric Utility Cost Share -				
Land	\$ 15,106	\$ -	\$ -	\$ 15,106
Buildings and Improvements	310,836	-	-	310,836
Equipment	<u>10,812</u>	<u>-</u>	<u>-</u>	<u>10,812</u>
Total Cost	336,754	-	-	336,754
Less -				
Accumulated Depreciation	182,844	6,191	-	189,035
Cost Less Depreciation	<u>\$ 153,910</u>	<u>\$ (6,191)</u>	<u>\$ -</u>	<u>\$ 147,719</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Gas Utility Cost Share -				
Land	\$ 19,894	\$ -	\$ -	\$ 19,894
Buildings and Improvements	409,470	-	-	409,470
Equipment	<u>14,207</u>	<u>-</u>	<u>-</u>	<u>14,207</u>
Total Cost	443,571	-	-	443,571
Less -				
Accumulated Depreciation	240,797	8,156	-	248,953
Cost Less Depreciation	<u>\$ 202,774</u>	<u>\$ (8,156)</u>	<u>\$ -</u>	<u>\$ 194,618</u>

See Independent Auditors' Report.

## NOTE 9 - CAPITAL ASSETS

Categories and changes in each category of capital assets for the year ended June 30, 2006, are as follows:

	Balances Beginning of Year	Increases	Decreases	Balances End of Year
Utility Plant, Facilities and Equipment, at Cost				
Neal 4 Steam Production	\$ 1,861,330	\$ 50,904	\$ (117,958)	\$ 1,794,276
Local Production Facilities	1,734,855	13,596	-	1,748,451
Transmission System	1,055,501	77,984	-	1,133,485
Distribution System	9,660,196	76,884	-	9,737,080
General Facilities Equipment	<u>1,937,895</u>	<u>4,741</u>	<u>(211,373)</u>	<u>1,731,263</u>
Total Cost	16,249,777	224,109	(329,331)	16,144,555
Less -				
Accumulated Depreciation	<u>6,788,678</u>	<u>443,252</u>	<u>(325,770)</u>	<u>6,906,160</u>
Cost Less Depreciation	9,461,099	(219,143)	(3,561)	9,238,395
Construction in Progress	60,977	-	(60,977)	-
Total Capital Assets, Net	<u>\$ 9,522,076</u>	<u>\$ (219,143)</u>	<u>\$ (64,538)</u>	<u>\$ 9,238,395</u>

Total depreciation expense for CRMU for the year ended June 30, 2006, amounted to \$457,599, which includes \$14,347 in depreciation on the municipal building assets. Depreciation expense charged to operations and the estimated useful lives for each category of depreciable property by fund are as follows:

	Estimated Useful Life	Depreciation Expense
Communications Utility: Telephone - General Facilities and Equipment	5 – 40 Years	\$ 1,641
Total		<u>\$ 1,641</u>
Communications Utility: Cable TV, Internet and Pagers -		
Local Production Facilities	5 – 40 Years	\$ 9,375
General Facilities and Equipment	5 – 40 Years	3,216
Total		<u>\$ 12,591</u>
Electric Utility -		
Steam Production Plant - Neal 4	40 Years	\$ 49,169
Transmission Plant System	24 – 40 Years	38,596
Distribution Plant System	5 – 40 Years	172,378
General Facilities and Equipment	5 – 40 Years	<u>52,369</u>
Sub-total		312,512
Municipal Office Building and Equipment	5 – 40 Years	6,191
Total		<u>\$ 318,703</u>

See Independent Auditors' Report.

**NOTE 9 - CAPITAL ASSETS (Continued)**

	<b>Estimated Useful Life</b>	<b>Depreciation Expense</b>
Gas Utility -		
Local Production Facilities	40 Years	\$ 2,785
Distribution Plant System	5 - 40 Years	11,887
General Facilities and Equipment	5 - 40 Years	<u>14,306</u>
Sub-total		28,978
Municipal Office Building and Equipment	5 - 50 Years	8,156
Total		<u>\$ 37,134</u>
Water Utility -		
Local Production Facilities	25 - 20 Years	\$ 7,098
Transmission Plant System	40 Years	2,759
Distribution Plant System	5 - 50 Years	17,633
General Facilities and Equipment	5 - 40 Years	16,942
Total		<u>\$ 44,432</u>
Wastewater Utility -		
Local Production Facilities	20 - 40 Years	\$ 19,545
Distribution Plant System	4 - 40 Years	19,049
General Facilities and Equipment	5 - 40 Years	4,504
Total		<u>\$ 43,098</u>

**NOTE 10 - COMPENSATED ABSENCES**

CRMU employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with a limited amount of carryover to subsequent years allowed. Earned but unused vacation hours will be paid upon termination, retirement or death. The liability for compensated absences is computed based on rates of pay in effect at June 30, 2006. Sick leave is not paid on termination, retirement or death; and therefore, no accrual has been made for accumulated sick leave hours.

**NOTE 11 - BONDS AND NOTES PAYABLE**Series 1998 Electric Revenue Bonds

The Series 1998 Bonds were issued on May 15, 1998, to finance the construction of a hybrid fiber coaxial distribution system, tools and equipment; the construction of a new utilities building; and to refund the final maturity of a previous electric revenue bond issuance. The face amount of the original issue was \$3,445,000 with interest rates from 4.85% to 5.10%. The bonds were refinanced with the 2006 Capital Loan Notes issued during the current year.

Subordinate Series 2000 and 2003 Electric Revenue Capital Loan Notes

On August 5, 2003, CRMU issued \$1,925,000 of Subordinate Series 2003 Electric Revenue Capital Loan Notes to advance refund a previous electric capital loan note issuance.

See Independent Auditors' Report.

## **NOTE 11 - BONDS AND NOTES PAYABLE (Continued)**

The previous issuance, Subordinate Series 2000 Capital Loan Notes issued on June 15, 2000, provided funds to pay the costs of improvements and extensions to the Electric Utility, including the purchase of three 1860 - kilowatt caterpillar engines. The outstanding balance of the Series 2000 capital loan notes at July 1, 2006, was \$1,530,000.

The interest rate on the Subordinate Series 2003 Capital Loan Notes is 3.85% computed using a 360-day year. Monthly principal and interest payments are scheduled with the amount of the monthly installment of principal varying on an annual basis. The final payment is scheduled for June 15, 2015. The Series 2003 notes may be called for redemption and paid before maturity on any date from any funds, regardless of source, in whole or, from time to time, in part, in any order of maturity and within a maturity by lot. The terms of redemption shall be par plus accrued interest to the date of call with no penalty for repayment.

During the year ended June 30, 2006, CRMU was in compliance with the capital loan note provisions included in the original resolution for issuance of the Subordinate Series 2003 Capital Loan Notes as follows:

- A. The notes will only be redeemed from future earnings of the Electric Utility and note holders hold a lien on the future earnings of the fund. The notes are subordinate to the outstanding electric bonds dated May 15, 1998. The notes will not constitute general obligations of the City of Coon Rapids nor be payable in any manner by taxation. The City shall not, in any manner, be liable by reason of insufficient net earnings of the Electric Utility.
- B. Funds in the revenue fund shall first be disbursed to make all required deposits into funds created by the prior resolutions for the Series 1998 revenue bonds.
- C. The Electric Utility will set aside, in a separate sinking fund account on a monthly basis, the amount necessary to pay in full the installment of principal and interest coming due on the next payment date of the outstanding notes.
- D. According to the note covenants, if the amount on hand in the sinking fund exceeds the amount required by the note provisions, the excess is to be withdrawn and paid into the revenue fund. At June 30, 2006, there were no significant excess funds in the sinking fund account.

### Subordinate Series 2006 Electric Revenue Capital Loan Notes

On May 4, 2006, CRMU issued \$2,000,000 of Series 2006 Electric Revenue Capital Loan Notes to advance refund a previous electric revenue bond issuance. The previous issuance, Series 1998 Electric Revenue Bonds issued on May 15, 1998, provided funds to finance the construction of a hybrid fiber coaxial distribution system, tools and equipment; the construction of a new building, and to refund the final maturity of a previous electric revenue bond issuance. The outstanding balance of the Series 2006 capital loan notes at July 1, 2006, was \$2,000,000.

The interest rate on the Series 2006 Capital Loan Notes is 4.10% computed using a 360-day year. Monthly principal and interest payments are scheduled with the amount of the monthly installment of principal varying on an annual basis. The final payment is scheduled for June 15, 2014.

See Independent Auditors' Report.

**NOTE 11 - BONDS AND NOTES PAYABLE (Continued)**

The Series 2006 notes may be called for redemption and paid before maturity on any date from any funds, regardless of source, in whole or, from time to time, in part, in any order of maturity and within a maturity by lot. The total benefit of this refunding is \$211,762 which amount will be recognized as a reduced interest expense over the payment period of the refunding notes.

Details of the revenue bonds and capital loans notes payable are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2006
Revenue Bonds:						
Electric Revenue Bond, Series 1998	5/15/98	4.85% to 5.10%	6/01/14	\$190,000 to \$360,000	\$ 3,445,000	\$ -
Capital Loan Notes:						
Electric Revenue Capital Loan Notes, Subordinate Series 2003	8/05/03	3.85%	6/15/15	\$140,000 to \$530,000	1,925,000	1,530,000
Electric Revenue Capital Loan Notes, Series 2006	05/04/06	4.10%	6/15/14	\$272,862 to 306,663	2,000,000	2,000,000
Total Outstanding June 30, 2006						<u>\$ 3,530,000</u>

A summary of changes in long-term liabilities for the year ended June 30, 2006, is as follows:

	Balances July 1,	Increases	Decreases	Balances June 30,	Due Within One Year
Revenue Bonds	\$ 2,550,000	\$ -	\$(2,550,000)	\$ -	\$ -
Bond Discount	(28,775)	-	28,775	-	-
Net Revenue Bonds	2,521,225	-	(2,521,225)	-	-
Capital Loan Notes	1,670,000	-	(140,000)	1,530,000	125,000
Capital Loan Notes	-	2,000,000	-	2,000,000	185,000
Inter-utility Loans	150,835	-	(31,160)	119,675	32,591
Deferred Rent Revenue	15,556	-	(13,333)	2,223	2,223
Totals	<u>\$ 4,357,616</u>	<u>\$ 2,000,000</u>	<u>\$(2,705,718)</u>	<u>\$ 3,651,898</u>	<u>\$ 344,814</u>

See Independent Auditors' Report.

**NOTE 11 - BONDS AND NOTES PAYABLE (Continued)**

A summary of the annual revenue bond and note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Series 2006 Revenue Capital Loan Notes		Series 2003 Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 185,000	\$ 87,862	\$ 125,000	\$ 56,699	\$ 310,000	\$ 144,561
2008	205,000	70,563	125,000	51,887	330,000	122,450
2009	240,000	61,500	110,000	47,339	350,000	108,839
2010	250,000	51,472	115,000	43,016	365,000	94,488
2011	260,000	41,034	125,000	38,412	385,000	79,446
2012	275,000	30,092	125,000	33,599	400,000	63,691
2013	285,000	18,629	135,000	28,610	420,000	47,239
2014	300,000	6,663	140,000	23,325	440,000	29,988
2015	-	-	530,000	11,052	530,000	11,052
Totals	<u>\$ 2,000,000</u>	<u>\$ 367,815</u>	<u>\$ 1,530,000</u>	<u>\$ 333,939</u>	<u>\$ 3,530,000</u>	<u>\$ 701,754</u>

**NOTE 12 - JOINT USE AGREEMENT**

On April 19, 2002, the Board of Trustees adopted and approved a resolution between the Electric Utility and Communications: Telephone Utility titled "A Joint Use Agreement Under Iowa Code Chapter 28E". The Electric Utility financed and installed a communications distribution system for the use and support of electric operations. This communications distribution system is the sole property of the Electric Utility. Through the joint use agreement, the Communications: Telephone Utility is granted the right to use the three networks of the Electric Utility communications distribution system in varying percentages as specified in the agreement.

The term of the agreement is forty years and commenced on July 1, 2001. For the term of the agreement, the Communications: Telephone Utility will pay to the Electric Utility, the sum of \$173,000 on or before the last day of June each year beginning June 30, 2002. The arrangements and terms of the agreement were based upon applicable market value and economic conditions at that time, in sole reference to the joint use of the communications distribution system by the Electric Utility and Communications: Telephone Utility. The Communications: Telephone Utility is obligated to comply with all property tax filing requirements imposed under Iowa Code Chapter 433.

**NOTE 13 - PAYMENT TO THE CITY**

CRMU provides utility and other services to the City of Coon Rapids. CRMU contributes an amount equal to these utilities and services back to the City as in-lieu-of-tax payments. The total amount paid to the City for the year ended June 30, 2006, was \$105,919.

**NOTE 14 - PENSION AND RETIREMENT BENEFITS**

CRMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

See Independent Auditors' Report.

#### **NOTE 14 - PENSION AND RETIREMENT BENEFITS (Continued)**

Plan members are required to contribute 3.70% of their annual covered salary and CRMU is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. CRMU's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004, were \$27,904, \$30,756 and \$28,468, respectively, equal to the required contributions for each year.

#### **NOTE 15 - HEALTH INSURANCE SELF-INSURED**

CRMU has a group health insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. In order to reduce health insurance costs, CRMU self-insures employee eligible medical costs that are not reimbursed by the health insurance provider. Under the self-insured program, the employees can apply for a reimbursement for out-of-pocket expenses that are considered normal and acceptable under the comprehensive medical insurance program. The employee can make an application for reimbursement by providing CRMU with a copy of an explanation-of-benefit report provided by the insurance carrier. The amount of the deductibles and maximum out-of-pocket expenses self-insured are as follows:

	<b>Deductible</b>		<b>Maximum Out-of-Pocket</b>	
	<b>Single</b>	<b>Family</b>	<b>Single</b>	<b>Family</b>
Employee	\$ 3,000	\$ 6,000	\$ 7,500	\$15,000

#### **NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES**

1. CRMU has a contract, effective to December 31, 2020, with the United States Department of Energy to provide CRMU firm electric power up to 2,395 kilowatts during any winter season month and up to 2,666 kilowatts during any summer season month, through December 31, 2010. This contract provides that the contract rate of delivery for firm power will be recalculated January 2011, for the kilowatts to be provided during the subsequent winter and summer seasons.
2. CRMU entered into a contract with its major transporter of natural gas in August 1993 that requires a capacity demand payment of approximately \$127,000 annually. The initial expiration date of the contract was through October 31, 1996, which was subsequently extended through October 31, 2008.

#### **NOTE 17 - MAJOR CUSTOMERS**

A significant portion of the Electric Utility and Gas Utility revenue is derived from a single customer. This customer generated approximately 24.4% of the Electric Utility total sales to customers and 42.8% of the Gas Utility total sales to customers for the year ended June 30, 2006. In addition, a significant portion of the Telephone Utility revenue is derived from two customers. These two customers generated approximately 18.7% and 16.2% for a total of 34.9% of the total telephone sales.

See Independent Auditors' Report.



## NOTE 18 - CONCENTRATION

CRMU provides utility services to commercial and residential customers in a specified service area in and around the City of Coon Rapids, Iowa. Credit is granted to substantially all customers, all of whom are local business or residents. All new customers of CRMU are required to pay a meter deposit. The deposit is refundable, within twelve months, if their account balances have been paid on time during that period.

The tax increment financing receivable by various Utility Funds is subject to collection by the City of property taxes associated with the tax increment financing district located in the City of Coon Rapids, Iowa.

The inter-utility loan receivable by the Gas Utility from the Communications (Cable TV) Utility is unsecured. Repayment is dependent upon the sales and collection policies of the Communications (Cable TV) Utility of CRMU.

## NOTE 19 - RISK MANAGEMENT

CRMU is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks, except for loss of infrastructure, are covered by the purchase of commercial insurance. CRMU assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the statement of net assets.

## NOTE 21 - CASH FLOW INFORMATION

Non-cash investing transactions occurred in relation to the discount of the Tax Increment Financing Receivable. The amount of the original discount and discount earned (reported as interest income) for each fund was as follows:

	Original Discount	2006 Discount Earned
Electric Utility	\$ 4,171	\$ 993
Gas Utility	21,433	5,103
Water Utility	5,026	1,196
Wastewater Utility	13,810	3,291
Totals	<u>\$ 44,440</u>	<u>\$ 10,583</u>

See Independent Auditors' Report.

## **NOTE 22 - SUBSEQUENT EVENTS**

1. CRMU has approved a donation of \$50,000 toward the Thomas Rest Haven's assisted living project contingent upon their utilizing CRMU as its agent for the administration of the Rural Economic Development Loan and Grant Program if eligibility requirements are met.
2. CRMU approved the bid from Robert Jensen Construction for the demolition of the old power plant and cooling tower site for \$33,500.
3. CRMU accepted the bid from Shriver Construction in the amount of \$82,700 for the replacement of warehouse siding, roofing and rain gutters.

See Independent Auditors' Report.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Actual on Budget Basis</b>	<b>Budgeted Amounts Original and Final</b>	<b>Final Budget to Actual Variance</b>
<b>RECEIPTS:</b>			
Use of Money and Property	\$ 231,187		
Charges for Service	4,464,307		
Debt Proceeds	2,000,000		
Miscellaneous	<u>121,435</u>		
Total Receipts	6,816,929	\$ 4,409,436	\$ 2,407,493
<b>DISBURSEMENTS:</b>			
Business Type Activities -			
Operating Expenses	3,771,058		
Transfers to City of Coon Rapids	51,571		
Capital Outlay	224,109		
Principal Redemption	142,385		
Debt Payoff from Debt Proceeds	2,550,000		
Interest Payments	<u>227,034</u>		
Total Disbursements	<u>6,966,157</u>	<u>4,759,190</u>	(2,206,967)
Excess (Deficiency) of Receipts			
Over Disbursements	(149,228)	(349,754)	<u>\$ 200,526</u>
Balance, Beginning of Year	5,448,173	989,521	
Balance, End of Year	<u>\$ 5,298,945</u>	<u>\$ 639,767</u>	

See Independent Auditors' Report.

## COON RAPIDS MUNICIPAL UTILITIES

BUDGET TO GAAP RECONCILIATION  
PROPRIETY FUNDSREQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006

	Budget Basis	Enterprise Funds Debt Adjustments	Accrual Adjustments	GAAP Basis
Receipts/Revenues	\$ 6,816,929	\$ (2,000,000)	\$ 114,988	\$ 4,931,917
Disbursements/Expense	6,966,157	(2,550,000)	465,071	4,881,228
Net	(149,228)	550,000	(350,083)	50,689
Beginning Net Assets	5,448,173		6,833,549	12,281,722
Ending Net Assets	<u>\$ 5,298,945</u>		<u>\$ 6,483,466</u>	<u>\$ 12,332,411</u>

See Independent Auditors' Report.

## **COON RAPIDS MUNICIPAL UTILITIES**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING**

In accordance with the Code of Iowa, the Coon Rapids City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds of the primary government and component units, including the operations of Coon Rapids Municipal Utilities (CRMU). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget for the City of Coon Rapids was amended for the year ended June 30, 2006, however, the budget amendment did not change the original budget of CRMU.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. CRMU's budget is included in the business type activities function. Functional disbursements required to be budgeted include disbursements for the primary government funds and enterprise funds, which would include CRMU's disbursements. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

## **OTHER SUPPLEMENTARY INFORMATION**

**COON RAPIDS MUNICIPAL UTILITIES**

**SCHEDULE OF EXPENSES  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Communications: Telephone Utility</b>	<b>Communications: Cable TV, Internet &amp; Pager Utility</b>
<b>PURCHASED ENERGY AND PROGRAMMING:</b>		
Purchased Energy	\$ -	\$ -
Purchased Cable	-	102,540
Purchased Internet	-	65,870
Purchased Pager	-	360
Central Office Switching and Transmission	127,285	-
Purchase Telephone and Long Distance	286,908	-
Neal 4 Generated Energy	-	-
Neal 4 Purchased Energy	-	-
Fuel	-	-
	<hr/>	<hr/>
Total Purchased Energy and Programming	\$ 414,193	\$ 168,770
	<hr/>	<hr/>
<b>PLANT OPERATIONS:</b>		
Salaries and Wages	\$ 1,476	\$ 3,228
Utilities	16,059	8,567
Chemicals and Testing	-	-
Maintenance and Generators	-	3,227
Maintenance of Plant	-	-
	<hr/>	<hr/>
Total Plant Operations	\$ 17,535	\$ 15,022
	<hr/>	<hr/>
<b>TRANSMISSION OPERATIONS:</b>		
Maintenance Neal 4 Transmission	\$ -	\$ -
	<hr/>	<hr/>
Total Transmission Operations	\$ -	\$ -
	<hr/>	<hr/>
<b>DISTRIBUTION OPERATIONS:</b>		
Salaries and Wages	\$ 18,417	\$ 32,254
Line and Station Supplies	44	62
Safety Expense	1,427	748
Maintenance	772	2,077
Miscellaneous	-	-
	<hr/>	<hr/>
Total Distribution Operations	\$ 20,660	\$ 35,141
	<hr/>	<hr/>

See Independent Auditors' Report.



SCHEDULE 3

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 227,401	\$ 987,972	\$ -	\$ -	\$ 1,215,373
-	-	-	-	102,540
-	-	-	-	65,870
-	-	-	-	360
-	-	-	-	127,285
-	-	-	-	286,908
333,396	-	-	-	333,396
297,916	-	-	-	297,916
2,012	-	-	-	2,012
<u>\$ 860,725</u>	<u>\$ 987,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,431,660</u>
\$ 5,713	\$ 306	\$ 13,950	\$ 1,926	26,599
10,028	18,995	18,408	6,611	78,668
-	-	7,122	658	7,780
3,788	-	-	-	7,015
140,165	-	4,490	2,956	147,611
<u>\$ 159,694</u>	<u>\$ 19,301</u>	<u>\$ 43,970</u>	<u>\$ 12,151</u>	<u>\$ 267,673</u>
\$ 48,820	\$ -	\$ -	\$ -	48,820
<u>\$ 48,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,820</u>
\$ 105,476	\$ 43,212	\$ 33,103	\$ 12,534	244,996
3,170	5,748	99	2,032	11,155
5,304	3,246	828	355	11,908
14,493	7,613	6,965	1,326	33,246
6,667	6,667	-	1,809	15,143
<u>\$ 135,110</u>	<u>\$ 66,486</u>	<u>\$ 40,995</u>	<u>\$ 18,056</u>	<u>\$ 316,448</u>

# COON RAPIDS MUNICIPAL UTILITIES

## SCHEDULE OF EXPENSES PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
<b>CONSUMER SERVICE EXPENSES:</b>		
Salaries and Wages	\$ 19,845	\$ 10,846
Office Supplies	9,287	5,938
Provision for Uncollectible Accounts	41,816	1,258
Total Consumer Service Operations	<u>\$ 70,948</u>	<u>\$ 18,042</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES:</b>		
Salaries and Wages	\$ 19,865	\$ 10,580
Telephone	1,636	905
Outside Professional Services	20,145	13,883
Legal and Public Notices	372	191
Property Insurance	1,544	3,604
Regulatory Commission Expense	8,761	240
Advertising	10,393	84
Trustee Salaries	652	352
Travel and Training	1,683	324
Dues and Assessments	4,091	110
Energy Conservation Expense	-	-
Miscellaneous	708	159
Vehicle Operating Expense	2,547	1,352
General Maintenance	515	245
Property Taxes	11,310	-
Employer Payroll Taxes	7,785	4,314
Employee Benefits	15,119	11,283
Total Administrative and General Expenses	<u>\$ 107,126</u>	<u>\$ 47,626</u>
<b>DEPRECIATION:</b>		
Depreciation Neal 4 Plant	\$ -	\$ -
Depreciation Transmission System	-	-
Depreciation Distribution System	-	-
Depreciation General Plant	1,641	3,216
Depreciation Production Plant	-	9,375
Depreciation Municipal Building	-	-
Total Depreciation Expense	<u>1,641</u>	<u>12,591</u>
Less Depreciation Allocated to Nonoperating Expense	-	-
Total Operating Depreciation Expense	<u>\$ 1,641</u>	<u>\$ 12,591</u>

See Independent Auditors' Report

**SCHEDULE 3**

**Business Type Activities - Enterprise Funds**

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 40,307	\$ 23,509	\$ 13,471	\$ 5,332	98,134
7,295	3,542	1,797	898	28,757
(494)	(459)	390	(1,748)	40,763
<u>\$ 47,108</u>	<u>\$ 26,592</u>	<u>\$ 15,658</u>	<u>\$ 4,482</u>	<u>\$ 182,830</u>
\$ 39,017	\$ 21,912	\$ 11,560	\$ 5,736	\$ 108,670
3,500	1,965	1,000	519	9,525
59,769	27,461	5,539	4,247	131,044
978	911	213	134	2,799
31,813	7,885	3,246	601	48,693
1,066	550	321	-	10,938
1,105	1,151	276	43	13,052
1,297	724	389	186	3,600
5,091	2,135	1,501	99	10,833
6,375	5,317	500	-	16,393
4,843	1,247	-	-	6,090
-	114	2,033	233	3,247
4,793	2,887	1,501	717	13,797
13,947	3,697	1,210	3,132	22,746
23,835	338	-	-	35,483
52,464	28,089	17,990	7,508	118,150
5,184	1,665	556	48	33,855
<u>\$ 255,077</u>	<u>\$ 108,048</u>	<u>\$ 47,835</u>	<u>\$ 23,203</u>	<u>\$ 588,915</u>
\$ 49,169	\$ -	\$ 7,098	\$ 19,545	\$ 75,812
38,595	-	2,759	-	41,354
172,378	11,887	17,632	19,049	220,946
52,370	14,306	16,943	4,504	92,980
-	2,785	-	-	12,160
6,191	8,156	-	-	14,347
<u>318,703</u>	<u>37,134</u>	<u>44,432</u>	<u>43,098</u>	<u>457,599</u>
6,191	8,156	-	-	14,347
<u>\$ 312,512</u>	<u>\$ 28,978</u>	<u>\$ 44,432</u>	<u>\$ 43,098</u>	<u>\$ 443,252</u>

## COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF INSURANCE COVERAGE  
FOR THE YEAR ENDED JUNE 30, 2006

TYPE OF COVERAGE - ALL UTILITY SYSTEMS	Expiration Date	Limits of Coverage (Each Occurrence/ Aggregate)
Property Coverage (Replacement Costs) - Fire and Extended Coverage (\$5,000 Deductible, 90% Co-Insurance) -	4/1/2007	
Electric Facilities, Buildings and Contents		\$ 679,979
Peak Shaving Plant and Contents		163,770
Water Treatment Plant and Contents		264,647
Water Tower and Contents		730,261
Cable Television Building and Contents		164,110
Maintenance Garage Building and Contents		895,463
Municipal Building - Building and Contents		1,450,721
Telecommunications Building - Building and Contents		1,351,395
Telecommunications Building - Generator Plant		3,736,812
Inland Marine -	4/1/2007	
Contractors Equipment (\$250 Deductible)		365,377
Electronic Data Processing (\$500 Deductible)		3,300
Scheduled Property Floater (\$250 Deductible)		134,300
Comprehensive General Liability -	4/1/2007	
Bodily Injury, Personal Injury and/or Property Damage		1,000,000/1,000,000
Fire Damage		100,000
Medical Expense		5,000
Employee Benefits		100,000
Products and Completed Operations		2,000,000/2,000,000
Comprehensive Auto Policy -	4/1/2007	
Bodily Injury and/or Property Damage		1,000,000
Uninsured/Underinsured Motorists		50,000
Collision (\$1,000 Universal Motorists Deductible)		ACV
Comprehensive (No Deductible)		ACV
Workmen's Compensation	4/1/2007	Statutory
Umbrella (Wrongful Act) Liability (\$10,000 Deductible)	4/1/2007	3,000,000/3,000,000
Linebacker Liability (\$1,500 Deductible)	4/1/2007	1,000,000/1,000,000
Boiler and Machinery Breakdown	10/8/2006	1,500,000
Crime -		
Employee Theft per Person (\$500 Deductible)		2,000/200,000
Computer Fraud (\$500 Deductible)		500/50,000
Manager		250,000
Assistant Manager		200,000
Comptroller		200,000

See Independent Auditors' Report.

## **OTHER REPORTS**

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Catherine T. Kellogg, C.P.A.

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Coon Rapids Municipal Utilities  
Coon Rapids, Iowa

We have audited the financial statements of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Coon Rapids Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Coon Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an

opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. That instance is overspending the budget which is discussed more fully in the Schedule of Findings and Questioned Costs, item III-B-06.

Comments involving statutory and other legal matters about the Utilities' operations for the years ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the trustees, officials, employees and customers of Coon Rapids Municipal Utilities, and other parties to whom the Coon Rapids Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

September 7, 2006

By  \_\_\_\_\_  
Certified Public Accountant

**COON RAPIDS MUNICIPAL UTILITIES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2006**

**Part I: Summary of the Independent Auditors' Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control were noted.



## COON RAPIDS MUNICIPAL UTILITIES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2006

#### Part II: Findings Related to the Financial Statements:

##### INSTANCES OF NON-COMPLIANCE:

No Matters were noted.

##### REPORTABLE CONDITIONS:

No Matters were noted.

#### Part III: Other Findings Related to Required Statutory Reporting:

III-A-06 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2006.

III-B-06 **Certified Budget** - Disbursements during the year ended June 30, 2006 exceeded the amount budgeted for the combined proprietary funds. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. This occurred due to the payoff of the 1998 Revenue Bonds in association with the advance refunding in order to refinance into lower interest rate notes and is only a technical finding.

**Recommendation** - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Response** - The budget will be amended in the future, if applicable.

**Conclusion** - Response accepted.

III-C-06 **Questionable Disbursements** - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-06 **Travel Expenses** - No disbursement of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

III-E-06 **Business Transactions** - Business transactions between Coon Rapids Municipal Utilities and Utilities' officials are immaterial and meet the guidelines of the Code of Iowa.

III-F-06 **Bond Coverage** - Surety bond coverage of Coon Rapids Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that coverage is adequate for current operations.

**Part III: Other Findings Related to Required Statutory Reporting: (Continued)**

- III-G-06 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.
- III-H-06 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Coon Rapids Municipal Utilities' investment policy were noted.
- III-I-06 **Revenue Bonds and Notes** - No instances of non-compliance with the electric revenue bond and capital loan note requirements for the year ended June 30, 2006, were noted.
- III-J-06 **Telecommunication Service Compliance** - Iowa Code Section 388.10 entitled *Municipal Utility Providing Telecommunications Services* generally requires a telecommunication service operated by a municipality not be supported by monies, facilities or services not paid for at reasonable amounts from funds generated by the telecommunication service. In addition, this section contains administrative requirements. No instances of non-compliance with Iowa Code Section 388.10 for the year ended June 30, 2006, were noted.